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GROWING INTO A LEADING GLOBAL COMPANY

Part I Editorial

KT&G is looking at the bigger world. With future-oriented business spirit, we are endlessly creating new values and taking step by step towards the future.

Our vision is to evolve into a leading global company with a balanced business portfolio. To realize this, we will continue to focus on solidifying our No.1 position in the domestic tobacco and ginseng businesses and actively developing new markets to expand our global business as well as vitalizing health-related, bio and pharmaceutical, cosmetics, and real estate businesses. We are committed to managing transparently, innovating continuously, and fulfilling social responsibility. We will align our business vision, corporate image, brand value, and management system on the basis of the Group-based value system and continue to make customers, shareholders, employees, and society better with trustable products and services.



CHAL

How to build a broad



LENGE

range of business portfolio?





LENGE

Taking a leap toward a leading global company

KT&G has never been afraid of applying innovation into management activities and continues to strengthen its competitiveness to win success in the global market where competitions are intensifying. As of 2013, we became the 5th largest global tobacco company that exports around 100 brands to 49 countries and are operating local production plants in Turkey, Iran, Russia, and Indonesia to supply our major overseas markets and neighboring countries.

The competitiveness of the Group has been elevated by newly entering health-related business with the establishment of KGC Life & Gin, acquiring Somang Cosmetics, and directly entering Chinese ginseng market. Through these new businesses, we are constructing a balanced business portfolio that brings both growth and profit.

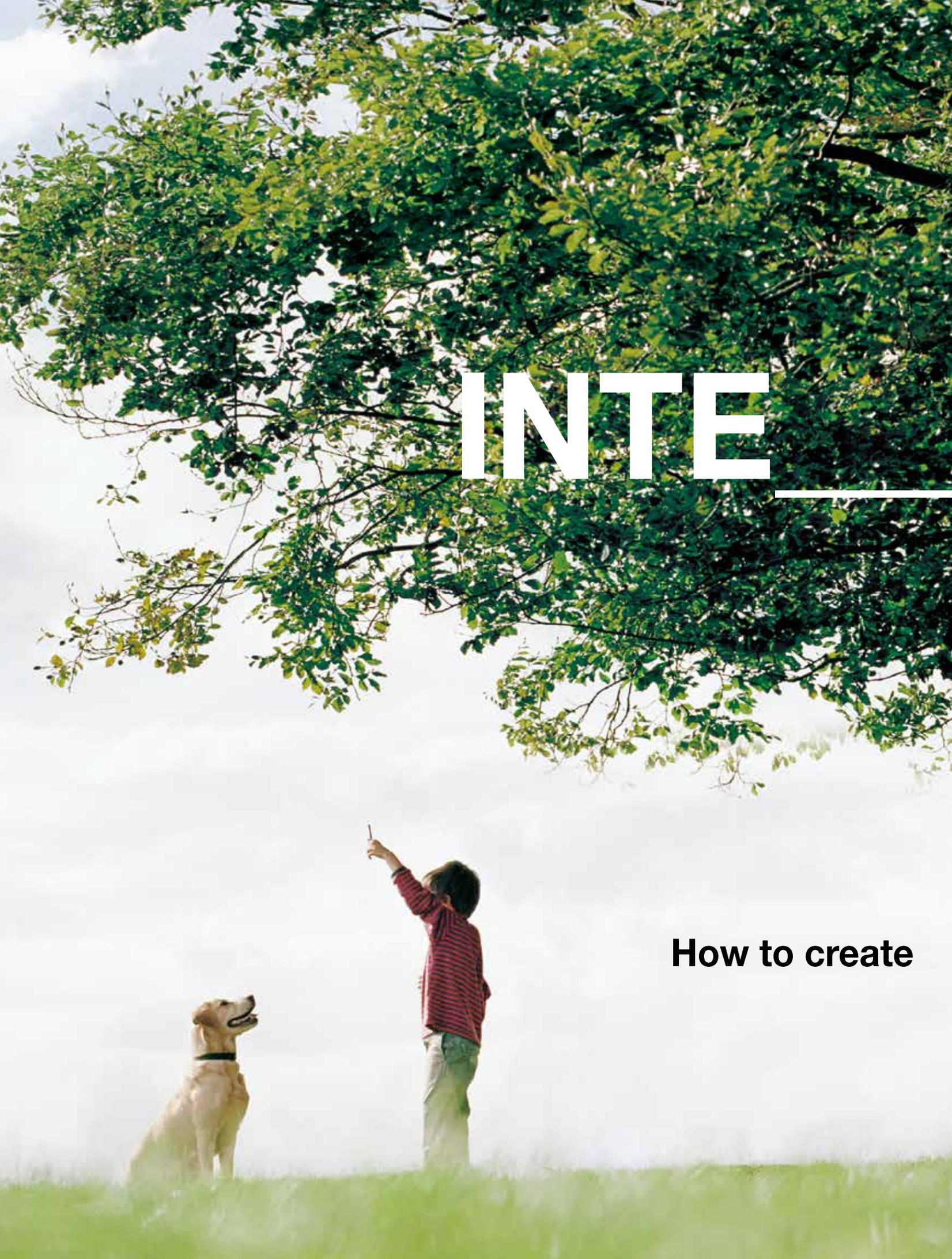
Exporting about

100

brands to

49

countries in the world



INTE

How to create

A large, leafy tree with a thick trunk stands in a grassy field under a cloudy sky. The tree's canopy is dense with green leaves, and its trunk is dark and textured. The grass in the foreground is slightly out of focus, creating a sense of depth. The sky is a pale, overcast grey.

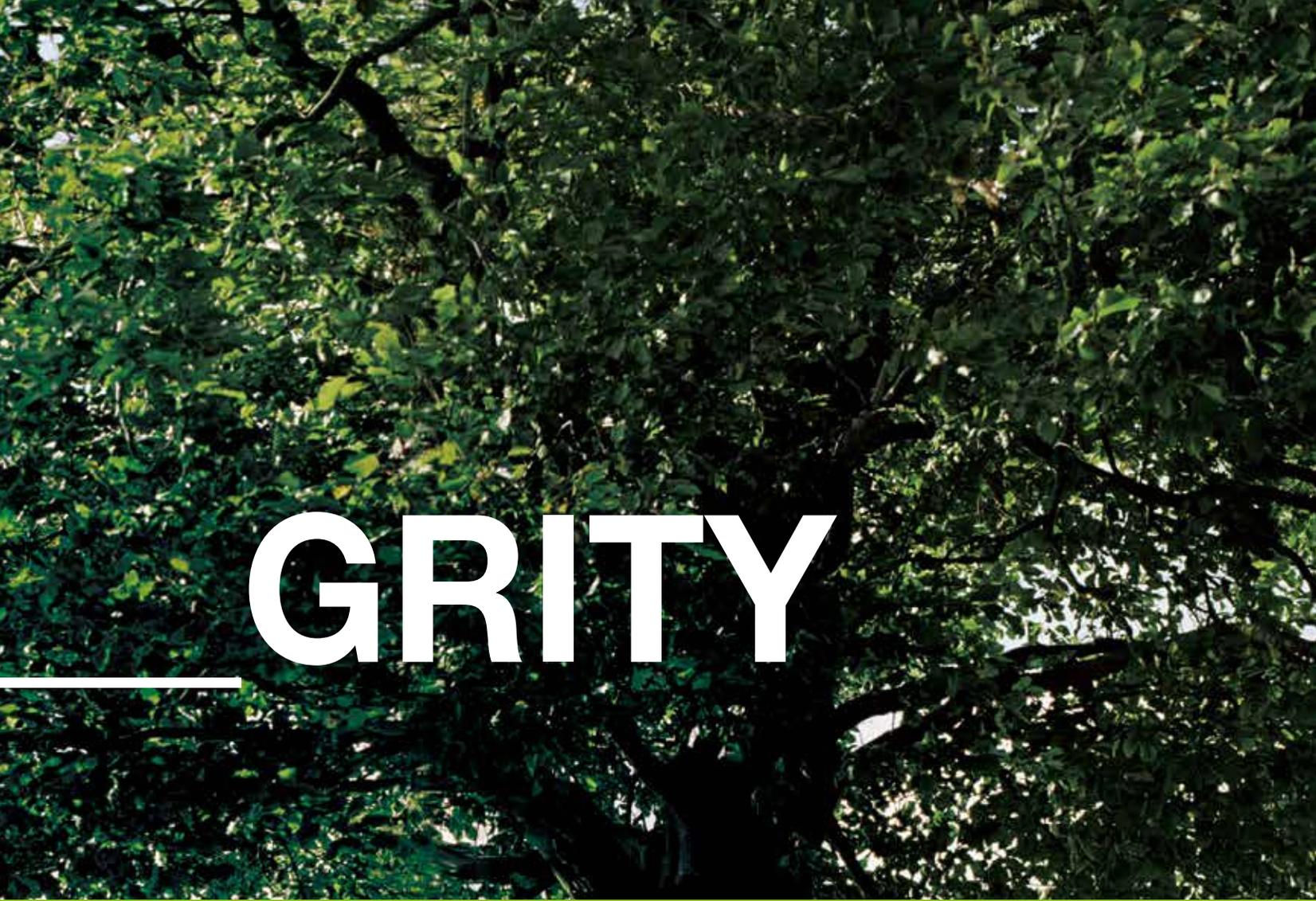
GRITY

a sustainable future?



INTE





GRITY

Maximizing corporate value and creating a sustainable future

KT&G is strengthening the foundation of trust through transparent management led by advanced BOD(Board of Directors)-driven management activities and high-level ethical management system. On top of it, we are sowing seeds of hope which aims for every stakeholder's happiness. Furthermore, in accordance with our management philosophy of 'righteous company, enlightened company, and company pursuing companionship,' we are active in building a foundation for fair transactions and win-win partnerships with suppliers, cultivating future talents, and conducting environmental management and social contribution activities. Through these efforts for sustainability management, we are contributing to making the world better. Building happier tomorrow with more people, that is our true hope.

Investing KRW

481.3

billion in social contribution activities since 2004

DEDICA

How to grow into a world

An aerial photograph of a rowing team in a scull on dark water. The team consists of several rowers in light blue shirts and dark shorts, positioned in a line within the narrow boat. They are using long oars to propel the boat forward. The water is dark and textured with small whitecaps. The word "TION" is overlaid in large white letters across the middle of the image.

TION

class company?

DEDICA





TION

Building progressive and creative corporate culture based on a sense of autonomy and responsibility

KT&G is constantly growing through endless self-evolution.

We have an efficient management system that allows us to actively respond to market changes and make rapid decisions, through which the future of the company is being shaped. We also have unique management philosophy aiming to create happiness with all stakeholders. These are the driving forces for making a better tomorrow at KT&G.

Each subsidiary of KT&G shares one corporate culture and brand identity to create bigger synergy and all employees strive to reinforce their global mind and capability, which contribute to enhancing global competitiveness of the Group.

Realized KRW

3.82

trillion sales revenue in 2013 as of consolidated base

FINANCIAL HIGHLIGHTS

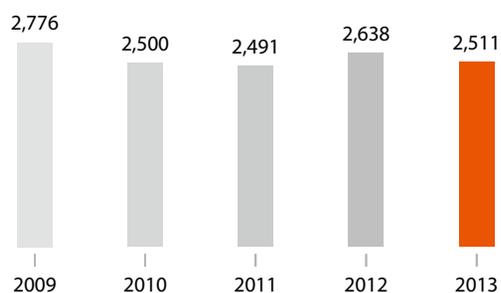
Operating Results

(Non-consolidated, KRW in billions)

	2009	2010	2011	2012	2013
Net sales	2,776	2,500	2,491	2,638	2,511
Cost of sales	1,155	1,002	967	982	936
Gross profit	1,621	1,498	1,524	1,656	1,575
Selling and administrative expenses	611	1,498	626	683	651
Operating profit	947	925	898	973	924
Net profit	745	931	776	768	501
Total assets	4,788	5,254	5,418	5,918	6,082
Total liabilities	935	916	874	1,015	1,050
Total shareholders' equity	3,853	4,338	4,544	4,903	5,032

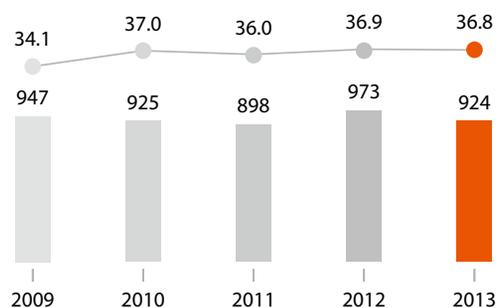
Net Sales

(KRW in billions)



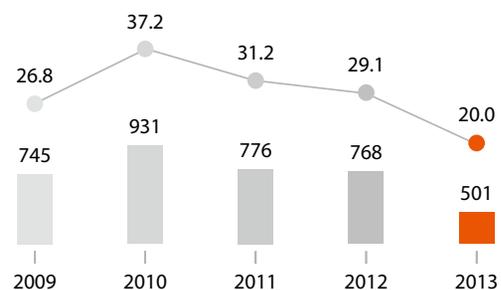
Operating Profit & Margin

(KRW in billions, %)



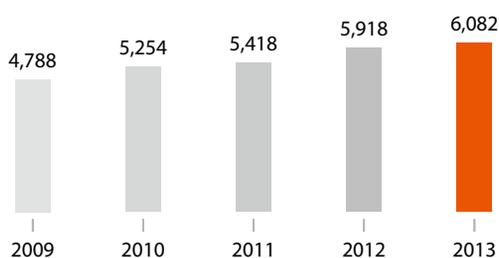
Net Profit & Margin

(KRW in billions, %)



Total Assets

(KRW in billions)

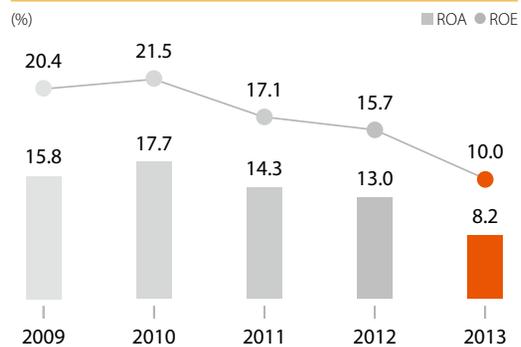


Financial Indices

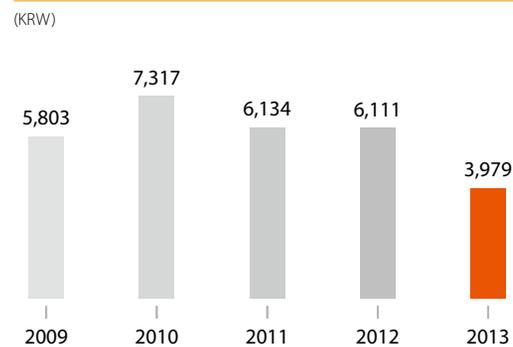
(Non-consolidated, %, KRW)

	2009	2010	2011	2012	2013
ROA	15.8	17.7	14.3	13.0	8.2
ROE	20.4	21.5	17.1	15.7	10.0
Operating profit margin	34.1	37.0	36.0	36.9	36.8
Net profit margin	26.8	37.2	31.2	29.1	20.0
EPS (KRW)	5,803	7,317	6,134	6,111	3,979
Payout ratio	48.3	41.0	52.2	52.4	80.6
DPS	2,800	3,000	3,200	3,200	3,200
Liabilities-to-equity ratio	24.3	21.1	19.2	20.7	20.9

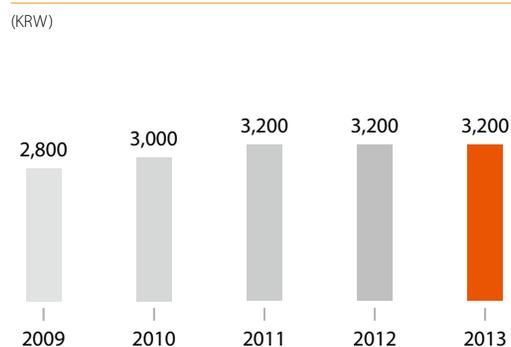
ROE & ROA



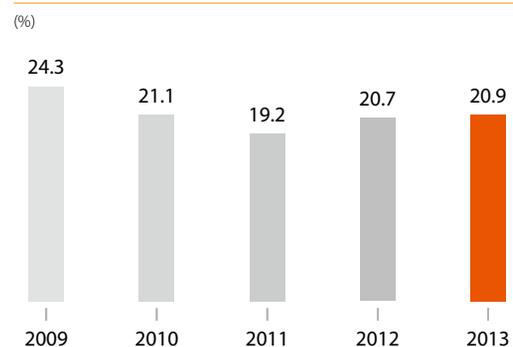
EPS



DPS

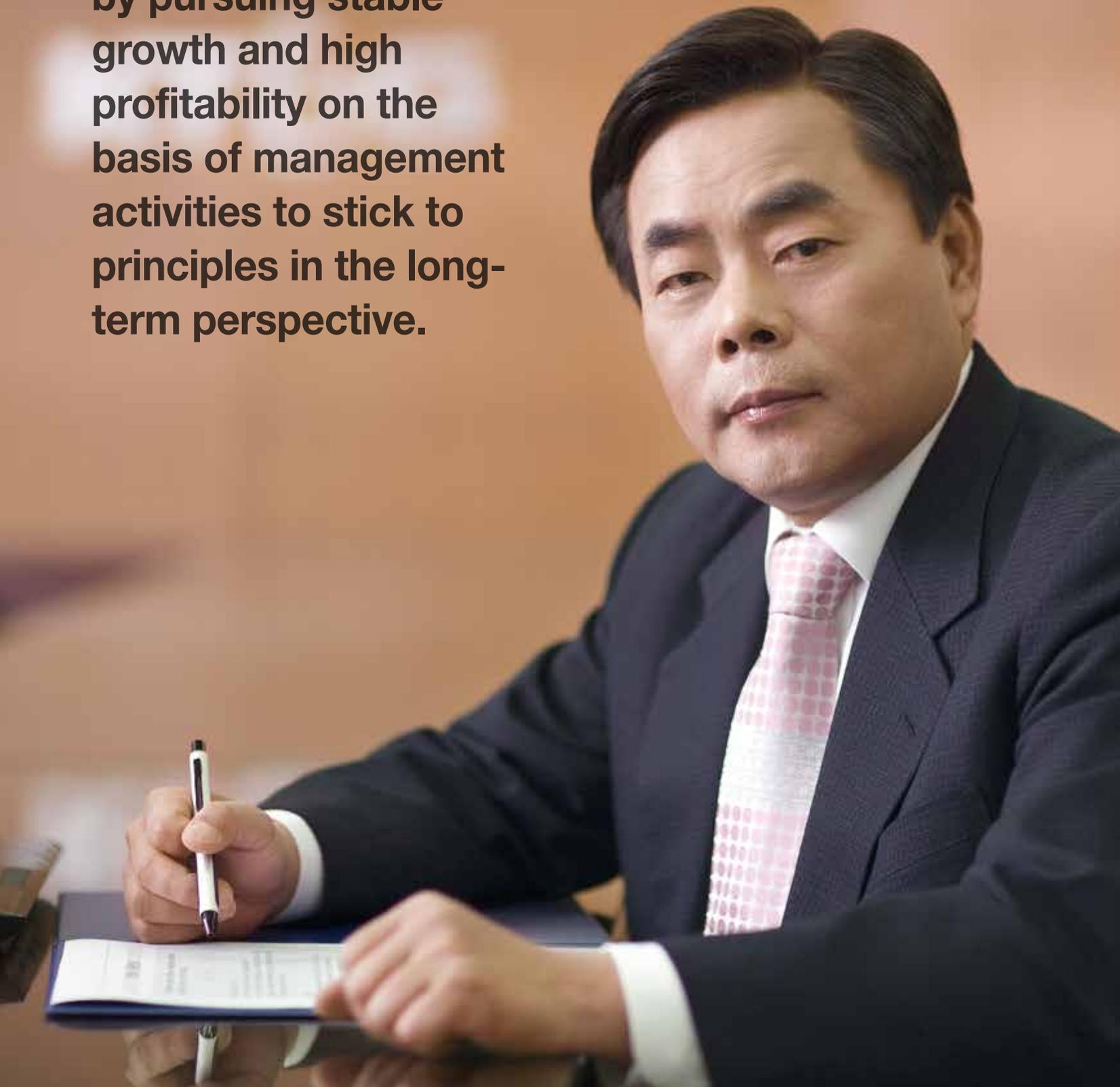


Liabilities-to-Equity Ratio



CEO's Message

KT&G is committed to increasing shareholder value by pursuing stable growth and high profitability on the basis of management activities to stick to principles in the long-term perspective.



Dear fellow shareholders,

I deeply appreciate your great interest and supports for KT&G.

In 2013, management condition was in unfavorable position due to sluggish domestic and global economy. Nonetheless, all employees at KT&G have made best effort to realize the vision of 'becoming a leading global company' and increase shareholder value.

In the flagship tobacco business, we launched differentiated new brands at the right moment to overwhelm multinational competitors and led the industry by standardizing blue band (a fire prevention technology) in the domestic market, achieving more than target operating profit. In the global tobacco business, we have been very active in developing new markets as well as securing sound business conditions from a long-range perspective. Our ginseng business took a hardship due to a slump in the domestic health supplement food market and decrease in consumption, but we focused on reserving strengths for taking a new leap by launching functional products, etc.

Also, in the perspective of 'management activities to stick to principle', we have strived to stabilize new growth engine businesses that will lead the future of the Group. As a result, KGC Life & Gin, Somang Cosmetics, Jilin Hanzheng Ginseng Co., Ltd. Trisakti, and KGC Yebon have laid the foundation for creating profits. Yungjin Pharmaceutical, in particular, achieved meaningful growth in terms of both quality and quantity by actively targeting overseas markets such as Japan and China with high quality products.

The domestic and global economy still holds uncertainty against all expectations. The global economy is bound to be shrunk due to the reduction of quantitative easing of the US. The domestic economy is anticipated to experience slight growth, but there is an existence of exchange risk driven by weak Japanese Yen and delayed consumption recovery. In addition, recent declining demand in the domestic tobacco market and tightened regulations make our flagship business condition tougher.

KT&G, however, has overcome many difficulties throughout the course of our 115- year corporate history and consequently shaped a new future with tenacious and strong organizational culture.

In 2014, we will devote ourselves to changing and innovating in order to turn current tough condition into opportunity. Especially, the following four core tasks will be intensively promoted for the creation of great results.

Firstly, we will strengthen our business competitiveness through continuous innovation to achieve our goal.

To this end, we will drive innovation in fundamental mindset and business process and make decisions centered on performance. In particular, our leaders will play a leading role in developing new ideas and fostering business competitiveness to change the market paradigm with a heavy responsibility to lead our business success.

Secondly, we will focus our company-wide capability on expanding global business.

By capitalizing on capability and know-how accumulated in the domestic market, we will accelerate the advance into the global market to lay the foundation for even better performance and become a real global player.

Thirdly, we will continue to put efforts and invest to enhance future competitiveness of the Group.

KT&G will not cling on to a little short-term gain but foresee 10 years ahead. The company will provide subsidiaries with solid support and assistance so that they can gain strong competitiveness. Other focuses will be on developing new businesses to become future growth engines of the Group, securing high-caliber talents, and improving the capability of existing employees.

Lastly, we will gain higher customer trust and fulfill our social responsibility.

With an acute awareness of customer value, we will strive to achieve the best level of customer trust in quality and service. Our social responsibility will also be advanced by preemptively developing new technologies and services such as using eco-friendly materials and implementing win-win partnership with SMEs.

We are very well aware that the reason KT&G can move towards the future and the world is all thanks to our shareholders' trust and affection for our company. In 2014, KT&G will dedicate to increasing shareholder value by pursuing stable growth and high profitability on the basis of management activities to stick to principles in the long-term perspective.



President & CEO **Min, Young-jin**

CORPORATE GOVERNANCE

KT&G has transparent and exemplary corporate governance through the BOD (Board of Directors) centered management. Furthermore, we set high ethical standards and transparently provide accurate management information to greatly enhance values of our customers, shareholders, investors, employees and local communities.

Executive Director



Min, Young-jin
President & CEO

Independent Non-executive Director



Cho, Kyu-ha
Chairman of the BOD



Kim, Won-yong



Kim, Duk-hwi



Kim, In-ho



Son, Won-ik



Song, Op-kyo



Park, Dong-lyul



Lee, June-q

Composition and independency of the BOD

Composition of the BOD

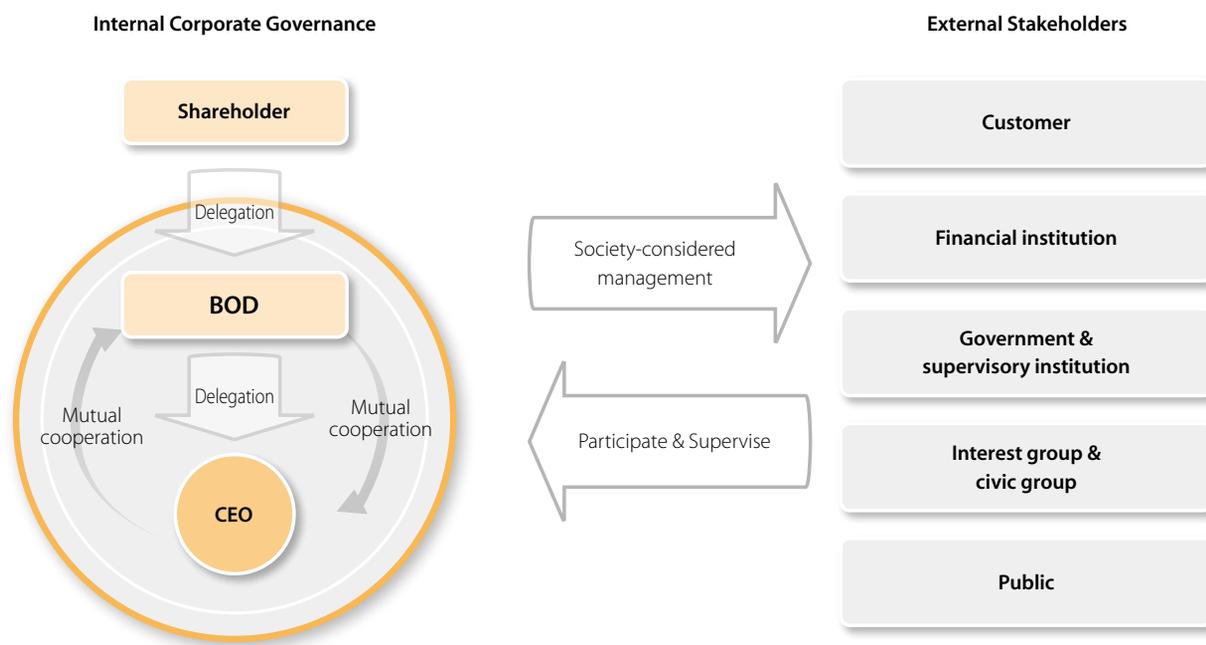
KT&G BOD is composed of 1 executive director and 8 independent non-executive directors and has been recognized as top-level BOD in Korea in terms of its role and operation efficiency. The company has built the BOD-driven responsibility management system where the BOD is governed by independent non-executive directors. The BOD pursues balanced profits between shareholders and stakeholders and plays a role as the top decision-making body on subjects which are authorized to the BOD by the legislation and articles of association and company's key issues which are included in the BOD regulation. The role of the chairman of the BOD was separated from that of the company CEO since March 2010 in order to ensure high management transparency. The BOD is committed to making efficient decision-making based on vigorous discussion and rational decision.

Independency of directors

To recommend independent and professional non-executive directors, KT&G operates the Independent Non-executive Directors Candidate Recommendation Committee comprised of only independent non-executive directors. Legislation and recommendation of standard rule require a majority of the committee with independent non-executive directors. To ensure transparency and independence in the process of candidate recommendation, searching and forming candidate pool are performed by an independent search firm and the committee examines the qualification of the pool and recommends the final candidates.

BOD-centered management

With the vision of 'Diversifying Ownership Structure and Building Professional Management System,' we pursue the BOD centered professional management system that defines the separation of possession and management.

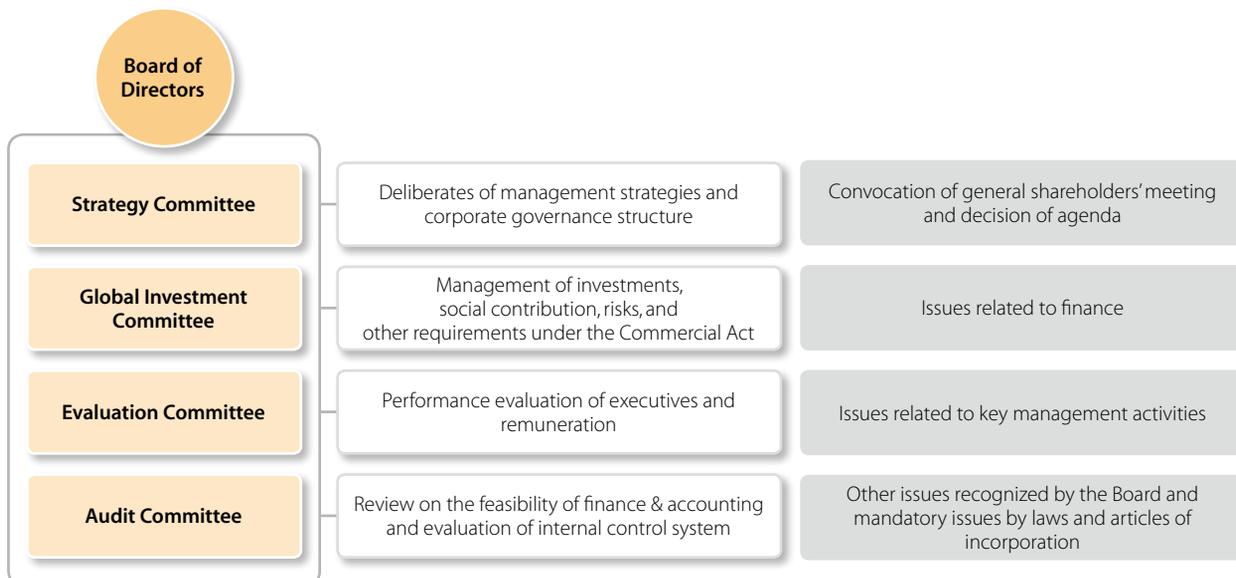


Committees under the BOD

To enhance professionalism and transparency of the Board and build stable governance structure, KT&G has established 4 standing committees; the Strategy Committee, the Global Investment Committee, the Evaluation Committee, and the Audit Committee, and non-standing committees such as the Independent Non-executive Directors Candidate Recommendation Committee and CEO Candidate Recommendation Committee. In particular, the Audit Committee and the Evaluation Committee are comprised of only independent non-executive directors to ensure the transparency of financial information and properly supervise and support the management.

Committee	Purpose and authority
Strategy Committee (4 independent non-executive directors and 1 executive director)	<ul style="list-style-type: none"> • Preliminary review on corporate identity such as corporate belief, vision and philosophy • Preliminary review on mid and long-term management plans, budgets, and revision of articles of associations and the BOD regulation • Preliminary review on ethical behavior of directors and corporate ethic policy • Related issues on the operation and improvement of the BOD and committees • Making decisions on important issues concerning major stakeholders • Checking management risks related to legal and institutional and preparing countermeasures
Global Investment Committee (4 independent non-executive directors and 1 executive director)	<ul style="list-style-type: none"> • Making decisions on installation, transfer, and closing of branches • Acquisition and disposal of fixed asset, investment in and expansion of facilities with over KRW 50 billion • Equity investment and disposal, direct foreign investment, and guarantees on overseas branches with over KRW 20 billion • Collateral provision, debt guarantee, assumption of debt, loan, tax exemption with over KRW 10 billion • Borrowings exceeding 10% of total equity (preliminary review in case of exceeding 25%) • Appointing proxy and closing shareholder list • Development of new businesses and follow-up inspection and risk management on investments • Development of social contribution activities and approval of budget • Preliminary review on internal transactions (over KRW 5 billion)
Evaluation Committee (5 independent non-executive directors)	<ul style="list-style-type: none"> • Regulations on remuneration and retirement pay of executives and retirement pay of employees • Making decisions on qualification criteria for CEO candidates • Making decisions on management evaluation index and change of weighted value • Making decisions on evaluation and remuneration of the CEO

Key role and authority of committees



Performance evaluation by the BOD

The BOD meeting was held 11 times in 2013. The BOD and its committees conduct a self-evaluation on their performances and cross-evaluations by individual members at the end of every year. The evaluation results are analyzed and reported to the top management at the beginning of the following year.

Awards in corporate governance

2003

- The Best Corporate Governance among Asian companies by CLSA
- Excellent Corporate Governance in 2003 by KRX and KCGS
- The Best Transparent Company by Economy21
- Obtained STRONG Rating in Corporate Governance Evaluation by S&P

2004

- The Best Corporate Governance by KRX and KCGS
- Ranked the 4th among Respected Companies by Dong-a Daily Newspaper and IBM BCS Korea
- Grand Prize at the 5th Audit Award by KICA and KICPA

2005

- The Best Corporate Governance in 2005 by KRX and KCGS

2006

- The Best Corporate Governance in 2006 by KRX and KCGS

2007

- Honorary Company in Corporate Governance for 3 Consecutive Years by KRX and KCGS

2010

- The Best Corporate Governance in 2010 by KRX and KCGS

2011

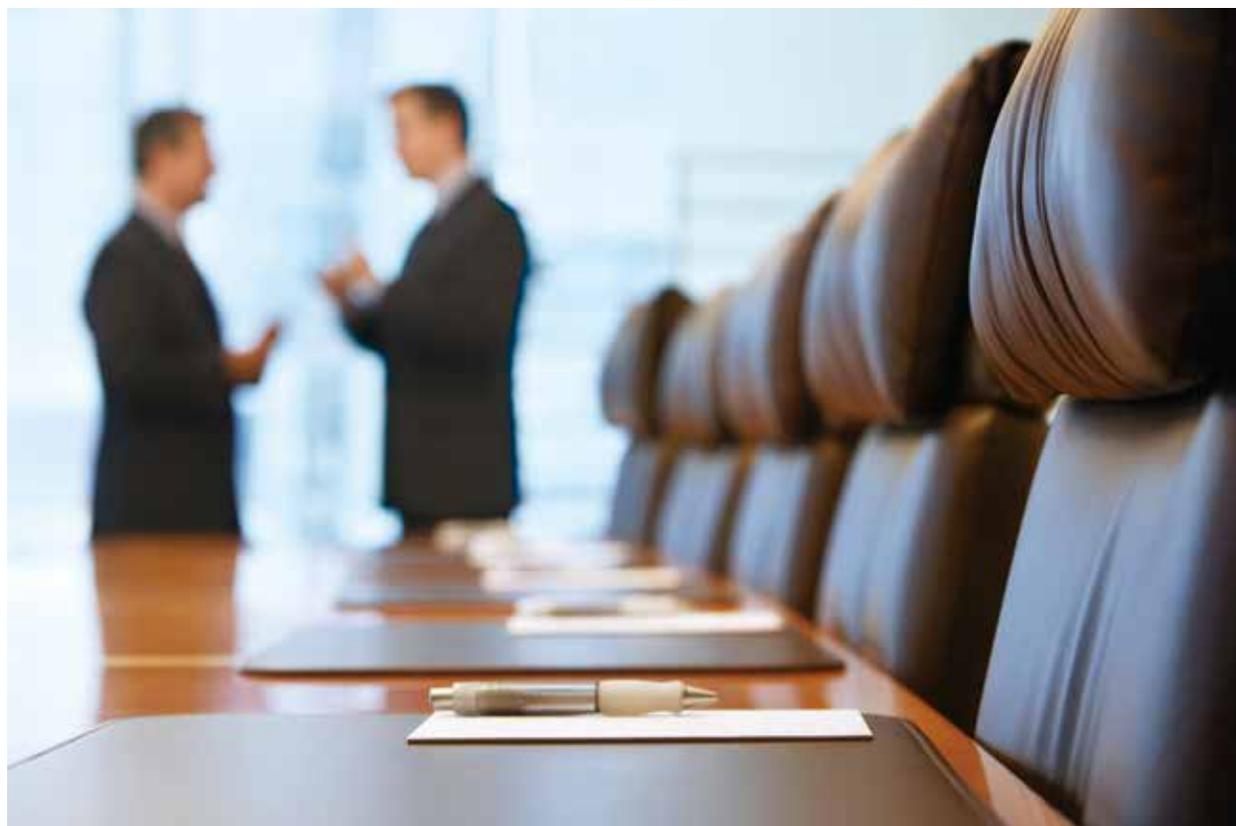
- The Best Corporate Governance in 2011 by KRX and KCGS

2012

- A+ in Corporate Governance Assessment by KCGS

2013

- A+ in Corporate Governance Assessment by KCGS

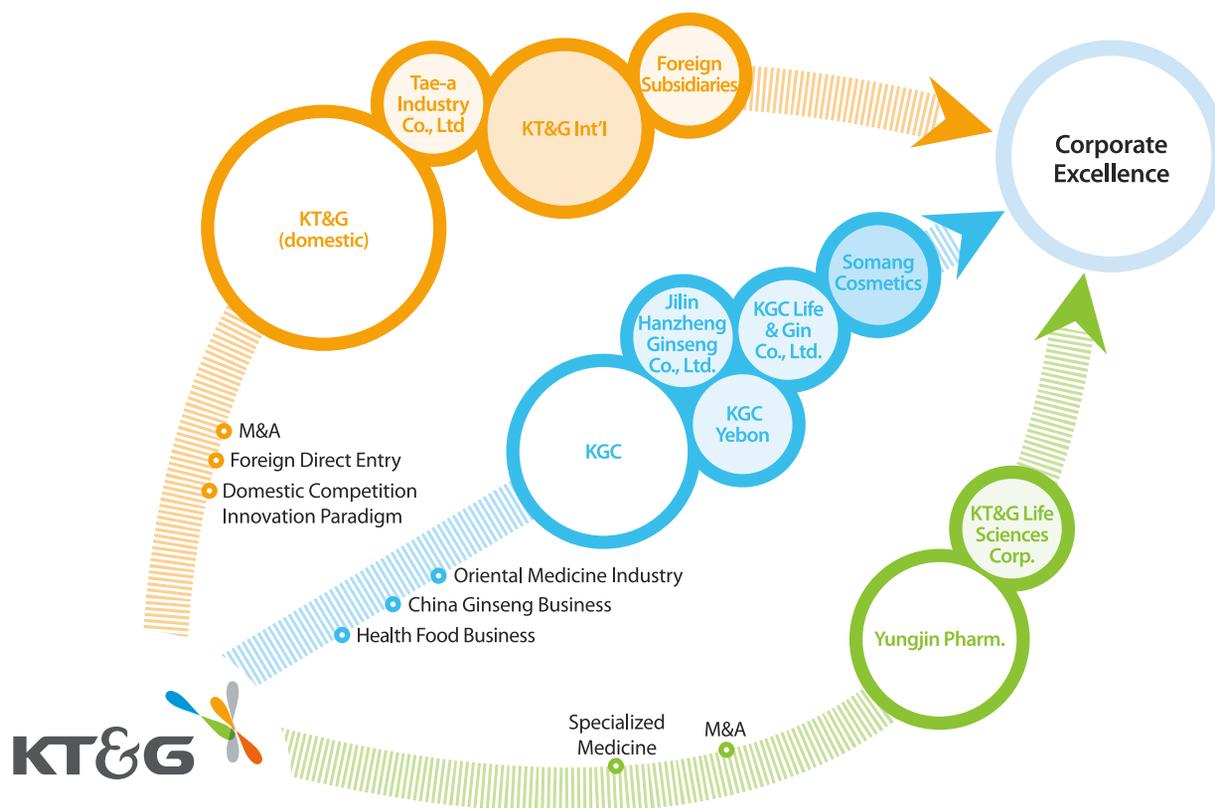


VISION AND CORE VALUE

KT&G will grow into a leading global company with world-class competitiveness and differentiated business portfolio.

KT&G has a clear vision to grow into a leading global company with growth potential, profitability, stability, and sustainability, which is driven by dedicating to maximizing value of the company and employees. To achieve this, we will focus our efforts on enhancing product quality, marketing activities, brand power, and R&D capability as well as expanding our global reach in order to lay the foundation for sustainable growth for our flagship tobacco business. Meanwhile, ginseng business will be promoted as a value-creating sector and bio and pharmaceutical business will be cultivated as a value-catalyzing sector. This strategy will allow us to build a balanced business portfolio. In addition, we will foster human resources to lead the global era and realize our unique management philosophy that places emphasis on humanity.

Business Portfolio



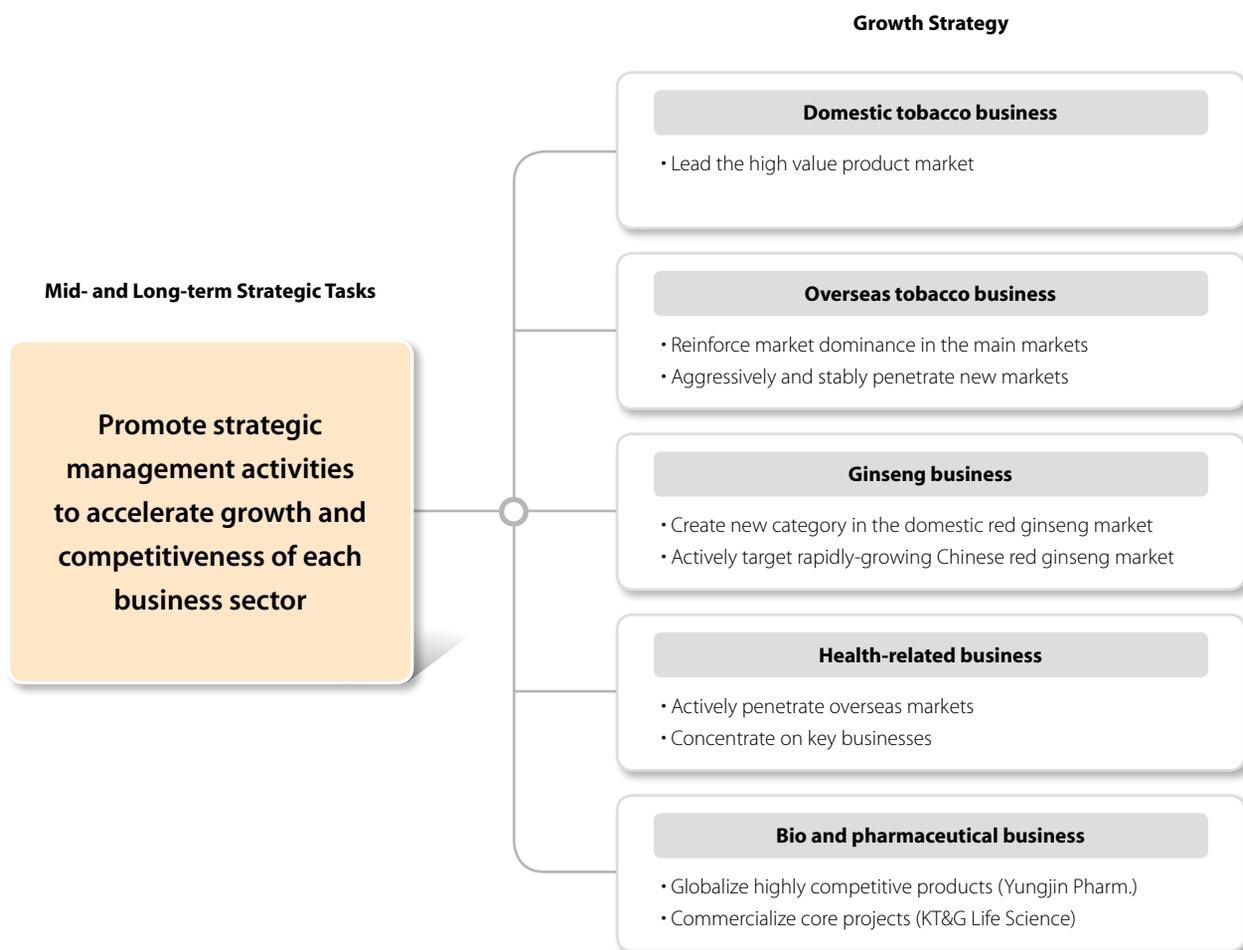
Vision and Strategy



MID- AND LONG-TERM BUSINESS STRATEGY

Based on firm growth foundation of existing core business, we will complete the frame of business diversification to strengthen global competitiveness and create stable profit.

The company will continue to not only focus on developing products to create customer value by identifying market needs and leading new technologies, but also gain higher customer trust through renewing and upgrading our brand value. At the same time, we will drive business efficiencies and maximize synergy within the Group by proactively capitalizing on competitive distribution channels.



Competitive strategies for each business

Domestic tobacco business	Our plans to solidify our leadership in the domestic tobacco market include the expansion of the lineup of premium products by leveraging our competitive and differentiated technologies and application of the 'Blue Band' technology to cope with tightening regulations and market environment.
Overseas tobacco business	KT&G plans to strengthen local marketing activities to increase brand power in main target markets and develop new markets through M&A, licensing, and price strategy.
Ginseng business	Developing high functional products will promote raising market share and stimulating growth in the domestic market. In China, the company will focus on entering into strategic alliances with local distributors and proactively utilizing local production bases.
Health-related business	We aim to secure stable business base in domestic market and make inroads into overseas market to unleash growth in our health-related business. To this end, KGC Life & Gin will concentrate on door-to-door sales and investments of cosmetics business and Somang Cosmetics is planning to create synergy with affiliates to reorganize distribution channel and strongly enter overseas markets.
Bio and pharmaceutical business	We will deliver first-in-class new medicine and secure business partners in order to commercialize it. At the same time, Yungjin Pharm will strive to proactively penetrate overseas market and strengthen R&D capability.



NEWS HIGHLIGHTS IN 2013

02.

Developed new tobacco products with low ignition propensity

We have succeeded in developing a new technology 'Blue Band' to manufacture cigarettes with low ignition propensity (LIP) and launched cigarettes to which this new technology was applied as its commitment to social responsibility regardless of enacting relevant regulations. This technology is to coat part of cigarette paper with materials with low ignition propensity to reduce fire caused by cigarettes.

01.

Declared top priority management principle, 'Customer Value 2.0'

The 'Customer Value 2.0' was declared as KT&G's top priority management principle to lead the future. The company will focus on enhancing quality, technology, and trust through the new management principle in order to secure superiority in the domestic market and lead the pursuit of coexistence with the community. The 'Customer Value 2.0' is our unique management strategy to make all stakeholders encompassing consumers, suppliers, and local communities be deeply affected by objectively and systematically analyzing the value of our products and services and fundamentally innovating the value.

03.

Developed the 'Scented Capsule'

KT&G and a venture company 'AT Lab' jointly developed the 'Seamless Scented Capsule' for the first time in Korea and signed a technology transfer contract. This capsule contains mixture of aromatic scent and natural oil within the very thin and seamless capsule and once it's popped inside the cigarette filter, it brings special flavors to cigarette.



04.

Launched the world's first ultra-slim capsule cigarette 'ESSE Change'

The world's first ultra-slim capsule cigarette 'ESSE Change' was launched. It allows users to enjoy two flavors at the same time. ESSE brand, the No. 1 selling ultra-slim cigarette, has accumulated 394.1 billion sticks in sales at home and abroad since the launch in 1996. It is equivalent to the length of 985 times of earth face or 51 times of round-trip distance between the earth and the moon.



05.

'Donation Petition' program for KT&G Sangsang Fund

KT&G introduced the 'Donation Petition' program to encourage employees to recommend the beneficiary of the Sangsang Fund. This is a new-concept donation program where employees post stories about their neighbors in need on the company network and their donation petitions are adopted when receiving over 200 recommendation comments. The amount of donation is decided in accordance with pre-set criteria by the Sangsang Fund Operation Committee.

06.

Launched 'Tonino Lamborghini Crispy' to commemorate the entry in INTER-TABAC

To commemorate the entry in 'INTER-TABAC' fair and 'Cannes Duty Free Expo', KT&G launched 'Tonino Lamborghini Crispy'. This product features natural tobacco taste and scent by applying 3 layers of firm tube filters. Package design was developed in collaboration with a world's renowned Italian design company 'ARC's;' and it emphasizes a three-dimensional and European style effect to add chic and dynamic feel to the design.



07.

Protecting 100 Korean cultural assets

KT&G started the '1 Department, 1 Cultural Asset' campaign to preserve Korean cultural assets and inform people on them. This campaign was prepared to voluntarily preserve Korean cultural assets in the region out of the nation's reach. The company's branch offices across the country are leading the campaign. They selected 100 cultural assets and started conducting various events and activities such as cleaning up the area, distributing information pamphlets, and hosting visitor expansion events.





KT&G DOMESTIC BUSINESS

KT&G has concentrated on maintaining absolute dominance in the domestic tobacco market by making use of product and market segmentation strategy and improving profitability through efforts for cost reduction.



We have created new niche markets by launching differentiated new products such as ESSE PRESSO, ESSE CHANGE, RASION ICE PRESSO, and BOHEM CIGAR MINI, and led the product standards as a market leader by commercializing the ‘Blue Band’ technology and developing eco-friendly materials.

Exhilarating differentiation centered on strategic brands

The domestic tobacco market is recently experiencing sluggish growth due to price regulation such as tax increase, restriction on smoking area, and antismoking campaign. The intensifying competition with foreign bands also brings tough business conditions. To cope with these market changes, in 2013, KT&G has launched high-priced premium brands meeting customer preferences and focused on exhilarating the differentiation strategic brands.

In the regular category, new innovative brands such as RASION ICE PRESSO, LAMBORGHINI ICE TORNADO, and THIS AFRICA have been launched and received positive response from consumers. In the slim-sized category, we have introduced new brands including BOHEM CIGAR MINI, ESSE PRESSO, and ESSE CHANGE to which differentiated type, scent, and capsule filter were adopted. These brands contributed to enhancing our leadership and market share.

We have also promoted the ‘Work Smart’ and ‘Smart Office’ campaigns in order to make our business activities highly efficient. We also focused on selling high-priced premium brands in the duty free shops to increase profitability.

In addition, in a bid to fulfill our social responsibility as a leading tobacco company, we voluntarily changed flavor strength indicating words and scent indicating words on every pack of cigarettes before the enforcement of relevant laws as well as adopted the LIP technology.

In 2013, KT&G’s tobacco sales in the domestic market posted KRW 1.89 trillion and its market share was 61.7%.



Striving to increase profitability and expand the supply chain

To preemptively cope with changing market environment and solidify the foundation of sustainable growth, KT&G has concentrated on establishing mid-and long-term plant operation strategy, increasing production capacity, expanding high-speed production facilities, intensively improving equipment efficiency, and encouraging cooperation between related fields. As a result, a total of KRW 13.5 billion was saved for the year.

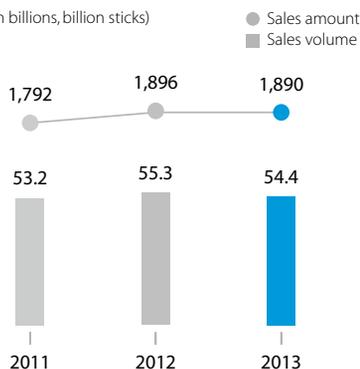
Additionally, the number of customer complaints decreased about 30% from the previous year thanks to our efforts for the development and application of low ignition propensity technology, intensive responses to repeated customer requirements, introduction of unsharpened case edge, and flavor guarantee.

In raw materials purchasing, we have optimized production cost through operating portfolio strategies such as analyzing global leaf tobacco market projecting its trend.

The supply of tobacco leaf has been stabilized through strategic production projects and long-term contracts. For the export of reconstituted sheet tobacco, we have reinforced partnership with existing local customers and strived to develop new customers in the world.

Domestic tobacco sales

(KRW in billions, billion sticks)





KT&G 
**GLOBAL
BUSINESS**

To secure sound business environment for overseas tobacco business in the long-term perspective, we strategically reduced receivables and inventories, while striving to develop new markets around the world.

Our activities to drive overseas business for the year included making inroads into South America, Africa, and Europe where KT&G has not yet entered and expanding manpower and launching new brands to enlarge sales capability in Southeast Asian countries.

Strategically reducing exports to main markets and exploring new target markets

KT&G, as world's 5th largest tobacco company that exports around 100 brands to 49 countries, is operating local production plants in Turkey, Iran, Russia, and Indonesia and local branches in the US, China, the Philippines, Kazakhstan, and Lebanon.

In 2013, we strategically reduced exports to the Middle East countries because local dealers tightened their inventory control to cope with declining demand due to the depreciation of local currency which was driven by economic sanctions of the US against Iran. As a result, our overseas tobacco sales recorded 27.7 million sticks and KRW 452.7 billion, decreases of 32% and 28% from the previous year, respectively.

Meanwhile, to gain sustainable growth foundation, KT&G has actively invested in potential markets such as Asia-Pacific and the US.

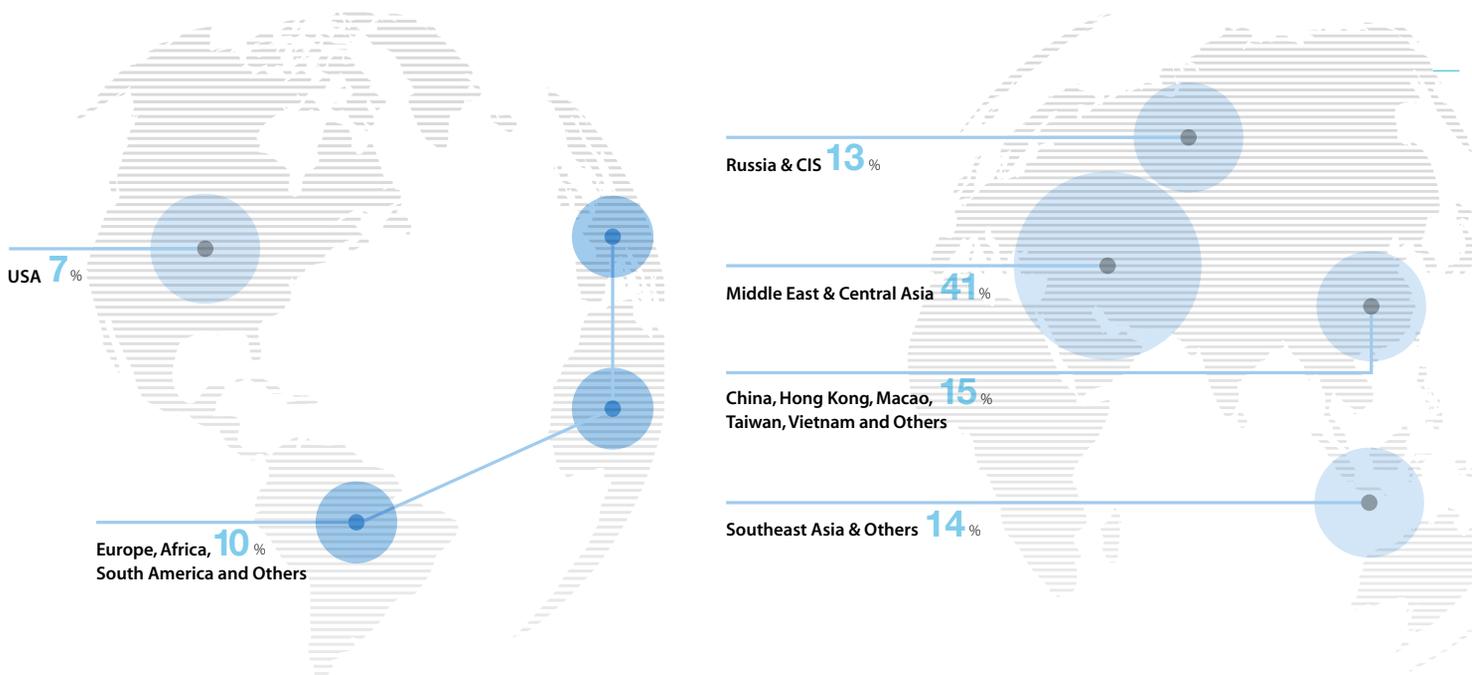
We established KT&G-i in Indonesia and dispatched resident employees in the Philippines and Lebanon to strengthen local sales organization in major strategic areas. Penetration into Europe, Africa, and South America has continued as well.



Our plans for overseas business in the coming year include expanding local distribution channels and lineup of premium brands and performing diversified brand management strategy that fits the characteristics of each region.

Overseas Sales by Region in 2013

*Including overseas subsidiaries





KT&G BRAND AND MARKETING

KT&G is focused on enhancing the asset value of each brand with the goal of building the number one tobacco brand in each segmented market.



We have secured high brand awareness based on high quality product lineup and wide range of sales network. Moreover, our corporate value has been created through customer satisfaction management, faithful execution of social responsibility, and proactive entrance into overseas market.

Efforts to strengthen brand value

Our products are made from superb quality ingredients and produced through cutting-edge automated facilities. In addition, the company is committed to diversifying the type, taste, price, and design and improving the quality to satisfy consumer needs.

In 2013, we have launched lots of new innovative products, receiving great responses from consumers. These new products are; BOHEM CIGAR MINI made with 'cigar wrapping' method, ESSE CHANGE, world's first super slim capsule cigarette made with KT&G's innovative technology and product development capabilities, and THIS AFRICA containing tobacco leaf processed by traditional African method.

To monitor overall brand performance in terms of competitiveness, satisfaction, recognition, and image, our flagship brands undergo a brand equity index review twice a year and a monthly brand index review. The overall brand strategy is managed in line with sustainability management strategy, and each brand's business plans and guidelines for brand development and operation are updated every year and strictly managed.

In the global market, KT&G is proactively implementing marketing activities through local distribution channels. Since 2006, the company has participated in the TFWA World Exhibition, world's largest exhibition for tax-free products, to promote its brands, manage existing clients, develop new markets, and secure new potential customers.



Communication channels for customers and social responsibility

KT&G is always listening to customers' opinions and carries out various policies and activities in order to go beyond customer satisfaction and touch the hearts of its customers.

Our systematic customer counseling system through 24-hour CS-Center provides satisfaction to customers by handling claims promptly. Feedback on process is communicated to the Quality Management Office to further improve product quality.

Furthermore, to gather various external opinions, we are operating an advisory committee composed of specialists in different areas and communication channels such as Sinmungo system.

KT&G is fulfilling its role as a corporate citizen by taking the lead in creating a desirable smoking environment.

Our major activities to create a desirable smoking environment include supporting installation of smoking room and smoke control facilities, supplying portable ashtray and public trashcan, campaigning to spread and settle smoking etiquette, educating teens on smoking prevention, and assisting cancer research.

MAJOR PRODUCTS

KT&G is producing high quality products through continuous technology innovation and R&D. These products are not only sold in the domestic market but also exported to 49 countries such as the Middle East, Asia, and Russia, solidifying the status as global brands.



THE ONE Series

THE ONE uses oxygen enhanced filter which filter particles are oxygenated twice. It is widely loved by consumers in 30's and 40's



RAISON Series

RAISON is mostly preferred by college students because of unique concept that targets consumers in 20's.



BOHEM CIGAR Series

BOHEM CIGAR Series is Korea's only cigarette containing cigar leaf and its exotic and peculiar concept and flavor receives lots of love from younger people.



ESSE Series

Super-slim cigarette 'ESSE' is the best-selling cigarette in Korea and, at the same time, a world-class brand that represents Korea.



THIS PLUS Series
THIS PLUS is one of the oldest KT&G's brands. It is solidifying its market dominance through innovative design improvement and extended lineup.



CLOUD9
CLOUD9 has the most unique size in the domestic market.



SIMPLE Ace Series
SIMPLE represents the slim type brands by bringing unique taste of cigarette with its distinctive filters such as tube filter and super-carbon filter.



TIME
TIME is preferred by classy and sensitive consumers in between ages of 25 to 35.

New Products in 2013



BOHEM CIGAR MINI 1,5mg (2013.01.15)
BOHEM CIGAR MINI is the world's first super-slim cigarette made with cigar wrapping method that uses cigar leaf contained paper. It is very portable.



ESSE Presso (2013.03.13)
ESSE Presso is applied with 'Double Flavor (existing filter flavor + new cigarette ingredient flavor)' to strengthen its distinctive flavor.



ESSE Change (2013.06.10)
ESSE Change is the world's first super slim capsule cigarette which was developed by KT&G's innovative technology and R&D capability.



RASION Ice Presso (2013.07.03)
RASION Ice Presso contains Ice capsule that turns distinctive flavor of RASION Presso into cool flavor when the capsule is popped.



TONINO LAMBORGHINI Ice Tornado (2013.07.11)
TONINO LAMBORGHINI Ice Tornado uses tornado shape filter that rotates smoke fast and delivers flavor faster.



THIS AFRICA (2013.09.04)
THIS AFRICA uses traditional African process to bring delicate and unique flavors unlike existing products.



KT&G R&D AND QUALITY COMPETITIVENESS

Various researches are conducted for the improvement of technological competitiveness and profitability. In addition, to elevate corporate value, we are preparing R&D strategies for new businesses to assure our future.



To strengthen the value of each tobacco brand and satisfy customers' needs, KT&G is working on developing technologies to reduce harmful substances from cigarette and improve product quality.

R&D organization

KT&G's R&D Headquarters consist of the R&D Planning Office and three research centers. The R&D Planning Office draws up R&D strategies and goals and manages R&D projects to achieve the goals. The Product Research Center works on the development of new products and improvement of existing lines based on customer needs. The Technology Research Center conducts research on the core technologies needed to develop innovative products and cultivate tobacco. The Analysis Research Center focuses on the research of analysis technologies needed to develop products and technologies.

Quality competitiveness

Double-layer wrapping technology

The technology of wrapping the tobacco in a double layer of cigarette paper helps cut off the side stream smoke coming off the end of a smoldering cigarette while reducing the tobacco odor from clothes and fingers.

Aroma packaging

A micro capsule containing a special aroma is mounted on cigarette packages. By rubbing a package, the aroma is released, reducing the tobacco smell left on the hands.

Taste & quality assurance system

To maintain the best taste required by consumers, KT&G built a system where the entire process from input of materials to production of finished product is monitored in real time. When a problem occurs, the production line is immediately stopped and is resumed after the problem is resolved.

Double verification system

In the final product shipping stage before shipment, products undergo a sensual evaluation by skilled workers and a quality data analysis using the latest equipment.



Disclosure of product information

Producer real name system

KT&G is the world's first tobacco company to introduce the Producer Real Name System, which is applied to all goods produced in Korea. This helps raise consumer trust, while making employees feel more responsible for quality. Since August 2011, the company has printed the production information and name of producer (head of team) on the bottom of cigarette packages to encourage workers to maintain the highest quality in production. It is also building an internal process to assess and further improve the efficiency of the system.

Consumers' right to know

All cigarette packages and cigarette advertising in Korea carry health warnings in accordance with the Tobacco Business Act and the National Health Promotion Act. All exported products are also printed with warning messages in compliance with the laws of the importing country. For consumers' right to know, KT&G also prints warning messages on cigarette packages exported to countries where there is no such legal requirement. The company follows international standards regulating messages that may be misleading to consumers. The tar and nicotine content is also disclosed for customers' right to know.

R&D expenses in 2013

KRW **12.4** billion

Intellectual property rights
(as of the end of 2013)

TOTAL **2,331**

Wisdom from Nature...

大自然的智慧

약 가르침 그대로



KT&G GINSENG BUSINESS

While we launch high-quality functional products meeting changes in consumers' lifestyle that makes more of health, we are focusing on conducting marketing activities centered on market and customer.



With 115 years of heritage and know-how, our ginseng business has received great trust from our customers. Currently, we are striving to secure nationwide distribution networks for 'Cheong-Kwan-Jang' brand and expand international market entering on Sino-cultural countries.

Securing mid- and long-term growth foundation by overhauling management system and entering overseas market

Ginseng business is playing a role as 'Cash Cow' in KT&G group behind the tobacco business.

More than 20 kinds of health functional products including 'Cheong-Kwan-Jang' are manufactured and sold through nationwide distribution networks. Our ginseng business continues stable growth through launching new products and conducting customer-centered marketing activities.

Furthermore, we produce high-quality ginseng with systematic cultivation management process for 6 years and product safety is ensured by food record management and strict quality control system. Innovative research results have been generated through relentless R&D efforts and the globalization of ginseng is being accelerated based on solid brand power in the domestic market.

Meanwhile, to keep up with continuous sales growth, we have invested about KRW 130 billion in expanding facilities to deal with fresh ginseng and produce extract since 2004. Especially, our product safety has enhanced by being designated as a company with GMP for health functional products in December 2006 and obtaining the certification of HACCP in June 2012. Also, we have been reducing cost and expanding production capability by introducing automated production facilities.



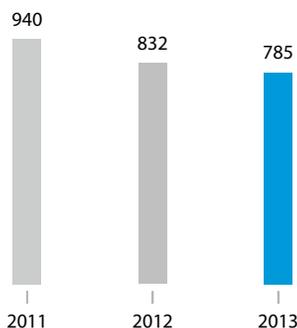
In 2013, our ginseng business recorded KRW 784.8 billion, a 5.7% decrease year-on-year, in sales and KRW 125.0 billion, a 6.1% decrease, in operational profit.

On the other hand, we gained meaningful results in terms of securing growth momentum. In the domestic market, we launched a functional product 'Hwaerak Queen' and carried out customer-centered marketing activities, through which we confirmed the possibility in sales growth. And our Chinese subsidiary has endeavored to elevate brand power and secure distribution channels in the region, paving the way for full-fledged operation.

Our business plans for ginseng business in 2104 include strengthening competitiveness in product quality and manufacturing, actualizing global operation, visualizing performances in China, and implementing integrated communication with consumers.

Ginseng business sales

(KRW in billions)





KT&G
GROWTH WITH
AFFILIATED
COMPANIES

With a balanced business portfolio consisting of the ginseng business, health and life business, and bio & pharmaceutical business, KT&G is evolving into a leading company with business excellence.

KOREA GINSENG CORP

The Korea Ginseng Corporation (KGC) was established in 1899 as Samjeongwa (Ginseng Management Division) within the royal palace of the Daehan Empire. Since then, it has inherited and developed the tradition of Cheong-Kwan-Jang to become a total health business. It is reinforcing its position as the world's number one red ginseng company by accelerating the globalization of Korean ginseng, a great cultural heritage. KGC endeavors to develop high-quality functional products, boost growth of flagship products, and redefine the function and role of distribution channels for the maximization of sales. It also intends to actively make inroads into global markets through strategic alliances with local companies.



KGC LIFE & GIN

KGC Life & Gin is engaged in selling herbal cosmetics brands and red ginseng products for door-to-door sale by capitalizing on KGC's core competencies. The expansion of sales organization is being promoted to maximize sales growth and secure stable business foundation in the domestic market. It also plans to accelerate global business for full-fledged growth.

SOMANG COSMETICS

Somang Cosmetics has been experiencing stable sales growth by launching innovative and reliable cosmetics brands such as 'The Flower Man' and herbal cosmetics 'Danahan' and using revolutionary marketing strategies. It will take the initiative in improving status of the Group's cosmetics business by reorganizing distribution channels, intensively cultivating 3 major brands, and aggressively making inroads into overseas market.



YUNGJIN PHARM

Yungjin Pharm. is focusing its R&D capability on developing new natural drugs. It also produces a variety of health functional products and generic medications which are differentiated by excellent quality. Securing wider client base and increasing production capacity will be promoted to upgrade competitive edge inside and outside Korea.



KT&G 2014 BUSINESS PLANS AND OUTLOOK

In 2014, KT&G will solidify the foundation for turnaround in sales and profitability by proactively penetrating global market in tobacco and ginseng businesses, while striving to gain balanced growth encompassing health-related business and bio and pharmaceutical business.

We will secure sustainable competitiveness through cultivating strategic brands, advancing production facilities, stabilizing raw material supply, strengthening R&D, executing customized marketing activities, and finding new markets.

Domestic tobacco market

Current market condition does not look favorable due mainly to slow economic recovery, tightened regulations, and intensified competition with foreign brands. In response, KT&G is planning to focus on cultivating strategic brands, increasing profitability, vitalizing integrated communication with customers, and pursuing performance-centered qualitative growth in order to concrete its market dominance.

In details, we are preparing to strengthen the market leadership through design identity reestablishment and image improvement of strategic brands, preemptively apply the 'Blue Band' technology, and rebuild price strategy. In terms of improving corporate image, we are planning to develop and spread stories on our high-quality products and technologies. Various communication programs will also be launched to lead consumers' participation. Qualitative growth will be driven by developing future-oriented technologies, advancing production facilities, and stabilizing the supply chain of raw materials.

Overseas tobacco market

The company expects that its overseas business will pave the way for another takeoff over the slump in 2013 as exportation to major markets is currently improving and preparation for entering new markets is steadily getting ready.

To do so, we are planning to expand local organizations and manpower and strengthen marketing activities in our major markets such as the Middle East and Central Asia. We will also target China and India in the long-term perspective and make stepping stones for business in European countries.

Other plans to boost overseas business include implementing distinctive brand strategies meeting the characteristics of each region and developing new product categories targeting niche markets.



Ginseng Business

While solidifying our dominance in the domestic ginseng market, we will pave the way for future growth and overseas business. To this end, the company domestically aims to focus on developing new products, expanding distribution channels, vitalizing communication with consumers, increasing production efficiency, and starting operation of new plants in time.

In the global market, we will implement distinctive brand strategies meeting the characteristics of each region and accelerate the localization of Jilin Hanzheng Ginseng Co., Ltd.

Cosmetics and Pharmaceutical business

For the cosmetics business, we will concentrate on strengthening brand competitiveness, expanding distribution channels, unleashing sales growth, and accelerating export. Meanwhile, developing large clients, launching new products, and making inroad into overseas market are our plans in the coming year for the pharmaceutical business.

COMMITMENT TO SUSTAINABILITY

CSR
KT&G Way
Social Responsibilities
TONINO LAMBORGHINI
AIMIN
PEOPLE
CUSTOMER SATISFACTION
WELFARE BENEFIT
R&D PRODUCT STRATEGIES
KT&G's tobacco
Danahan
MAXIM
R&D P
differentia
Head

- 50 Ethical and Transparent Management
- 52 People and Culture
- 54 Environmental Management
- 56 Social Contribution
- 58 Organization Chart
- 59 Ownership Structure & Overseas Subsidiaries and Branches

SUSTAINABILITY IN ACTION



ETHICAL AND TRANSPARENT MANAGEMENT

KT&G is committed to complying with domestic and foreign regulations related to its businesses, conducting fair transaction with business partners, protecting human rights of employees, and fulfilling other moral and ethical standards that are required from society. In addition, a variety of education programs are offered to employees for the improvement of business ethics and the establishment of ethical and transparent management as a corporate culture.





Establishment and development of ethical management

Business ethics has taken strong root within our company since 2003 when the code of ethics and its implementation guidelines were established to ensure that all employees fulfill their duties with integrity and faithfulness.

A variety of ethical education programs are provided to all employees and rules and systems for business ethics are also continuously upgraded. We also diagnose the ethical business practices of our major affiliated companies for the improvement of insufficiencies, which allows us to set the right directions and reinforce the practice of ethical business management at the Group level.

In addition, the Ethical Management Office conducts assessments and audits to detect potential misconduct and monitor compliance with the code of ethics in each division, regional headquarters and branches every year.

Laying the foundation for fair transactions and win-win partnerships

KT&G established basic principles for purchasing based on its code of ethics to ensure fair transactions. We comply with the 'three major guidelines for win-win partnership between large companies and SMEs' recommended by the Fair Trade Commission. Internally, compliance guidelines for fair transactions were set up, through which we have been enhancing our employees' understanding of the Fair Trade Act and practicing business ethics.

Since the introduction of the Compliance Program and the designation of a compliance officer in 2002, KT&G has striven to ensure market order by voluntarily complying with laws related to fair transaction. Furthermore, as a member of the Korea Tobacco Association, we joined the Trade-related IPR Protection Association (TIPA) to eliminate illegal distribution of tobacco.

Under the recognition that suppliers are valuable business partners, the company has been establishing sustainable partnerships with them. Our activities for win-win partnerships include developing and supporting excellent suppliers, supporting financial aids to local tobacco farmers, conducting research to enhance quality of locally-produced leaf tobacco, and helping tobacco farmers in their busy season.

PEOPLE AND CULTURE

KT&G believes employees are the biggest assets and sources of competitiveness. Therefore, the company considers work-life balance its top priority and provides them with various welfare benefits to ensure that they lead a stable life.



Nurturing high-caliber talents

KT&G has established a mission, strategies and detailed tasks to develop and nurture high-caliber talents who accord with core values and criteria of the company, under which all employees are striving to enhance their competencies.

Providing educational services

The BIS (Business Information Service), built in March 2011, offers web- and smart phone-based video contents and thesis search services in the fields of economics, business administration, and leadership. The KISS Education Management System helps employees track their education history, manage their career development, and share useful information other than those offered through collective education programs.

Hiring global talents

Based on the Labor Standard Acts, KT&G offers equal opportunity of employment to people of merits and disabled persons without discrimination of region, gender, or religion. The company also hires people who are committed to challenge, execution, and mutual cooperation in line with the spirit of 'I am C.E.O,' the criteria of KT&G human resources.



ENVIRONMENTAL MANAGEMENT

Ongoing and proactive environmental risk management and response to climate change are in place as part of the concerted drive to be a company that realizes the balance between our business activities and the environment.



Strategies and directions of KT&G's environmental management

With the recognition that environmental management is a corporate social responsibility, KT&G makes best effort to conduct integrated and systematical environmental activities and responses to climate change issue beyond just responding to regulatory requirements. The company has continuously improved internal environmental management system, through which pollutants are strictly controlled. In addition, a concerted effort is underway to implement environmental activities meeting the government's low-carbon and green-growth policy and evolve into a leading environment-friendly company.

Building environmental management system

Even though we have less environmental issues than other manufacturing businesses, each plant dedicates to reducing energy consumption, monitoring environmental issues, thoroughly managing pollutants, and conducting various activities to operate the processes environmentally. We are also working to upgrade our environment performances at the Group level. The Green Management Team, which was newly installed to take full charge of environmental management, seeks to promote environmental activities throughout the Group, enhance green management at each plant, and reduce greenhouse gas emissions.

Efforts to reduce environmental impacts

To minimize environmental impacts on local communities and the ecosystem and make business sites environment-friendly, KT&G strictly manages the use of water resource, wastewater discharge, and waste materials. We are continuously reducing the use of waterworks by installing water-saving facilities or substituting industrial water or underground water for waterworks. All water pollutants are managed at levels that are below the legal requirements and wastewater is treated by outsourced professional service companies. Waste materials are also controlled in line with strict waste reduction plans.

Strategic response to climate change

With the 'greenhouse gas and energy target management system' in place by the government in 2011, most domestic companies are stepping up their activities to cope with climate change. Even though it is not mandatory for KT&G, we are carrying out a variety of activities to actively respond to climate change. Those include promoting the use of high energy-efficiency devices and installing energy-saving facilities, sharing energy sources with nearby plants, and participating in Energy Service Company (ESCO) projects. In addition, we are focusing on producing environment-friendly products and integrating the logistics system at the Group level in order to reduce greenhouse gas emissions.



SOCIAL CONTRIBUTION

KT&G's social contribution is carried out through the 'KT&G Way' which defines its mid- to long-term social contribution directions. The 'KT&G Way' is comprised of five categories: 'Contribution to Arts and Culture' to support and create new culture based on the keyword 'Sangsang (imagination),' 'Welfare Foundation' to help the disadvantaged, 'Scholarship Foundation' to offer financial assistance to creative talents to lead the global era, 'Volunteer Services by Employees' to share our employees' talents with others, and 'Social Responsibility Activities' to reflect the characteristics of the industry.

KT&G's inventive social contribution

Employees at KT&G are conducting inventive social contribution activities such as 'Sangsang Fund,' 'Sangsang Together,' 'Sangsang Volunteer,' and 'Good Reply Campaign.'

Sangsang Fund

In March 2011, KT&G started raising the 'Sangsang Fund,' a voluntary donation and matching grant program to encourage all employees to have a higher sense of helping people in need. The fund raised in 2013 was used for supporting surgery fees for low-income serious patients, scholarships for low-income university students, briquette delivery to the disadvantaged, and restoration of flood damage.

Petition for Donation

Employees post stories of neighboring people in need on the 'Petition for Donation' column of the intranet, of which ones with more than 200 reviews or comments are adopted for aids. The Sangsang Fund Operation Committee determines the amount of donation to support selected cases in line with criteria.

Sangsang Together

'Sangsang Together' is a volunteer group which was formed in October 2007 in order to directly participate in resolving problems in local communities and conducting the responsibility to return corporate profits to society. As of 2013, a total of 168 volunteer groups under 17 organizations are in activity.

Sangsang Volunteer

'Sangsang Volunteer' consisting of university student volunteers was formed in 2010 and is currently under operation in 14 regions (by regional headquarters) nationwide. This program pursues a new-concept talent donation in which participants plan and execute their own volunteer services by capitalizing on their talents.





Good Reply Campaign

KT&G conducts the ‘Good Reply’ campaign to give courage and hope to those who are suffering from cyber bullying. The fund accumulated by its employees posting good replies on the company intranet is donated to the Sunfull Movement Korea. The company actively participates in the social movement as a corporate citizen by launching in-house campaign for positive comments in the cyberspace as an extended concept of ‘Good Reply.’

Social Responsibilities

In order to create a society where mutual respect and understanding are valued between smokers and non-smokers, KT&G is performing various public-interest campaigns that reflect the characteristics of its business. Those include distributing portable ashtrays, inserting smoking etiquette pictograms on tobacco cases, and improving smoking environment in public facilities, etc. In addition, we are making donations to the Korean Foundation for Cancer Research to support its R&D as well as preventing underage smoking.

Contribution to Arts and Culture

KT&G is operating KT&G Sangsang Madang, multipurpose art and culture space, in order to support young and creative artists and provide the public with opportunities to enjoy various culture and arts. KT&G Sangsang Madang, established in September 2007, is located in front of Hongik University, a youth mecca in Korea, and comprises 7 floors above ground and 4 floors underground with movie theaters, live halls, design shops, galleries (I, II), academies, studios and cafés. KT&G Sangsang Madang provides spaces for performances, movies, exhibitions, and educations, contributing to creating and sharing new trends in arts and culture.

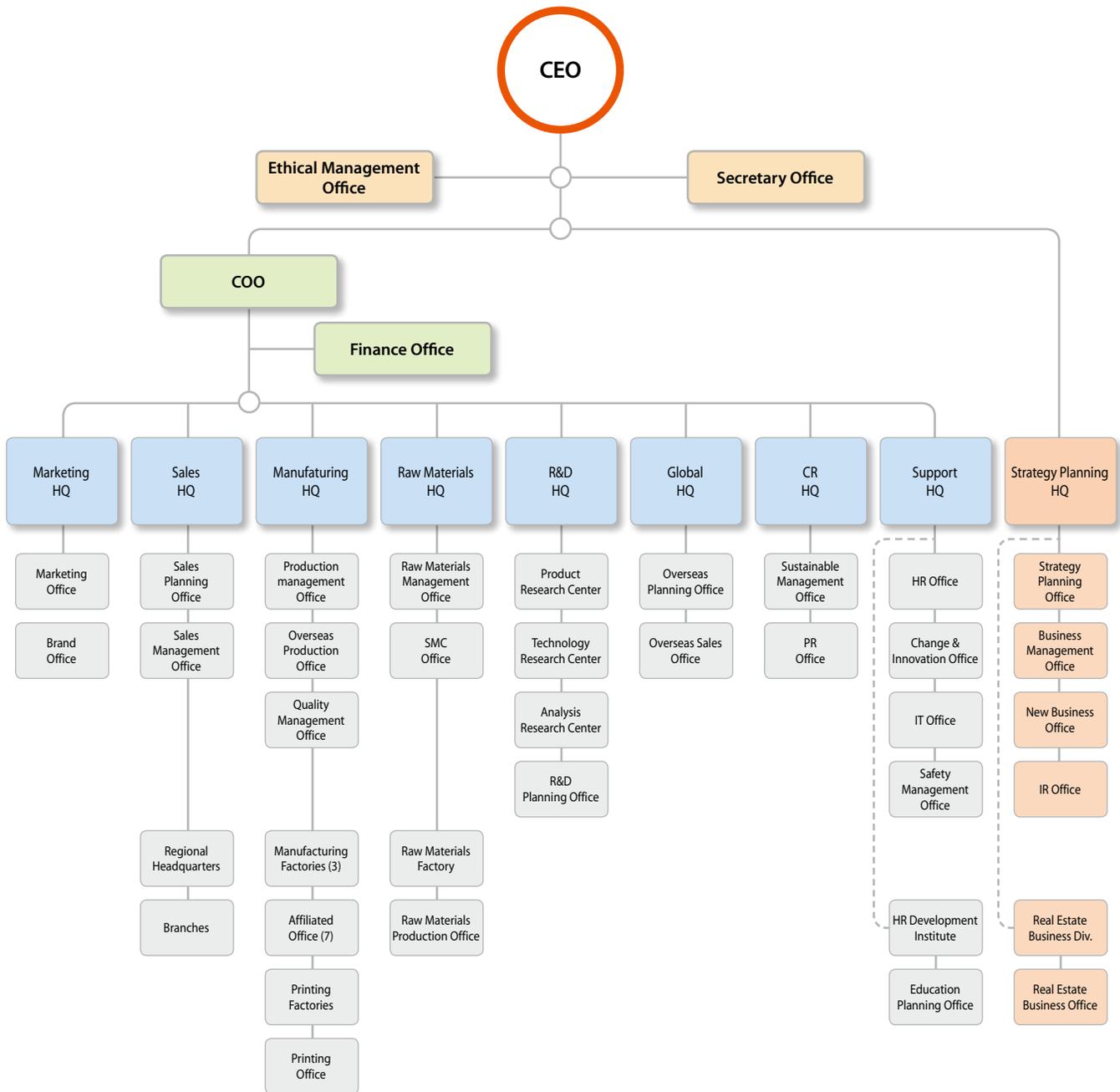
Welfare Foundation

KT&G Welfare Foundation, established in July 2003, has been providing professional welfare services to senior citizens, children, and settlers. The foundation is operating 8 local welfare centers in Seoul and its metropolitan areas, laying the foundation for continuing differentiated welfare services. It also built a public-private partnership network to further expand their services to the underprivileged and local communities.

Scholarship Foundation

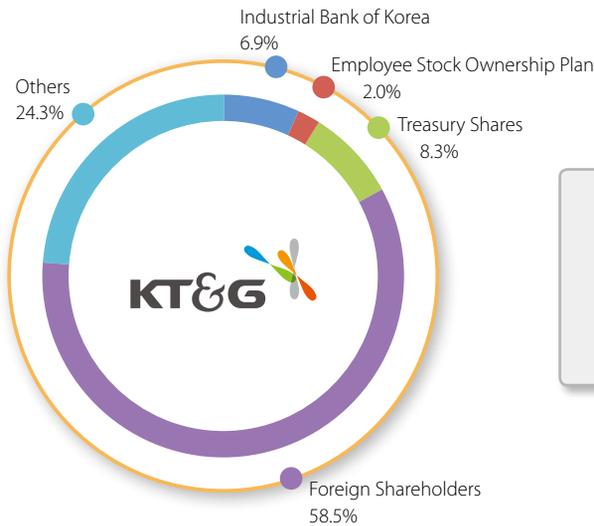
The ‘Scholarship Foundation’ was established in 2008 with the purpose of achieving its management philosophy ‘Growing Together’ and cultivating creative talents to contribute to enhancing the national competitiveness. The foundation has been continuously providing financial assistance to the students who are suffering from economic difficulties.

ORGANIZATION CHART



(As of March 2014)

OWNERSHIP STRUCTURE



- Capital Stock: KRW 955 billion
- Number of Authorized Shares: 800,000,000
- Number of Shares Issued 137,292,497
- Shareholders' Equity: KRW 5,365 billion

OVERSEAS SUBSIDIARIES AND BRANCHES



Turkey Plant

- Completed in April 2008
- Annual production capacity: 2.6 billion sticks (as of double shift)



Iran Plant

- Completed in April 2009
- Annual production capacity: 1.0 billion sticks (as of double shift)



Russia Plant

- Completed in October 2010
- Annual production capacity: 4.0 billion sticks (as of double shift)



Indonesia Plant

- Acquired in August 2011
- Annual production capacity: 6.4 billion sticks (as of double shift)



INQUIRIES

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